PROBABLE CHANGES IN THE FOREIGN TRADE OF THE UNITED STATES RESULTING FROM THE EUROPEAN WAR—DISCUSSION

M. J. Bonn: The foreign trade of the United States after the war will be affected by many individual circumstances; its future development will depend to no small degree on the principle governing the future trade relations between the nations. During the last century the economic life of nations has been based on the principle of international interdependency in an ever increasing degree. Will that principle be maintained or will the world return to the principle of isolation and national self-sufficiency, which was the trade ideal of days gone by? The answer can only be given after an inquiry into some of the economic lessons of the war.

That the war would stop the trade between belligerent nations was no surprise to anybody. Given a war of such magnitude an enormous economic dislocation was unavoidable. The imports which Germany, for example, had received from her enemies were 43.5 per cent of her total imports.

But the war did more than that. It affected the trade between neutrals and belligerents to an unexpected degree. That the belligerents would levy an embargo against the neutral nations on goods they wanted at home, as the British embargo on wool, was reasonable and legitimate. Nor could Russia's grain trade to neutral countries be maintained, as its route lay through the Dardanelles. On the other hand the almost total annihilation of the German-American trade is due to a deliberate action of a belligerent, to the so-called blockade enforced by England. It may be illegal, but it is a fact. As far as her power goes, England has stopped the trade between different neutral nations, whenever she was afraid of goods, of non-contraband goods too, reaching the enemy. She will not permit the provisioning of those countries if they do not give guarantees of not trading with the enemy. That interference cuts both ways: A country like Sweden, neutral in the spirit as well as in the letter, has put an embargo against Russia whenever she had to lay one against Germany. Sea power as well as geographical position interferes in the trade between neutrals. Roumania cannot export wheat except through the Central Powers' territory, and Switzerland is entirely surrounded by belligerents.

A rupture of trade relations on a far bigger scale than was ever expected is not the only lesson of the war. Settlements of individuals and influx of capital into foreign countries have played a large part in

business life before the war. So far as men liable to military service were concerned, it was quite natural that they should be interned in a hostile country. This was done with Russian laborers in Germany and with German reservists in England. But one did not expect the rounding up of foreign-born men who were not part of the army and who were willing to follow their peaceful occupations, as happened first in England. And nobody foresaw that naturalized citizens whose ancestors had acquired citizenship a hundred and more years ago would be deprived of their property, as was done in Russia with German settlers, and that more recently naturalized citizens would be greatly interfered with in their business relations, as was the case in England. Nor was it expected that the citizens of belligerent states inhabiting neutral countries would be unable to return, even if in no way connected with the army.

A great part of international trade was based on capital investments in foreign countries. It has always been assumed that the selling of foreign securities would be an excellent way of providing funds in time of war. Here too, expectations were disappointed. The closing of the stock exchanges made many millions of securities unsaleable. The relative weakness of French finance during the war is due to that circumstance. It was found, moreover, that the public owning first-class securities were unwilling to part with them, notwithstanding the extra profits given by a falling exchange. It is true that large blocks of foreign securities were sold. But even this is not a tightening of international credit ties; it means a wiping out of an existing debt, and with it the curtailment of that share of international trade which was due to payment of interest.

We are going to see that "nationalization of capital," which before the war was advocated strongly in France and to a lesser degree in Germany. For the breakdown of stock exchanges at the beginning of the war is not the only argument against foreign investment. Many securities on the London and in the Paris stock exchanges, some of them English but many foreign, were the property of foreigners. To-day all such property belonging to "alien enemies" is withheld from its owners. For example, the interest on American or Brazilian railway bonds listed in London is paid to a trustee but not to the owners. Up to March 1, 1915, this trustee accounted for over $400,000,000. On the other hand, the non-payment of Turkish and to a certain degree Austrian coupons is a very severe blow to French investors. It seems to me that the war has shown the danger of international interdependence to an unexpected degree. European economists had discussed

this problem long before the war. I think they underrated it. They reckoned with a war of short duration, and they expected the neutrals to be strong enough to prevent the disturbances of neutral trade. In both respects they have been mistaken. Part of that interference is no doubt illegal, as put on record by the United States government. Though these records state these facts in an unanswerable way they do not change them. If we cannot prove to ourselves and to the world that this war is the last war possible, resumption of normal trade relations is possible only by nations taking these experiences into account.

The danger of dependence today is felt by all nations, though not to the same degree. The strain is slightest in England, though even she does feel it. If the index number in England for grain and meat, which was about 580 in 1913, had risen to 834 last October, that was partly due to a shortage of tonnage, and partly due to the absence of Russian Roumanian supplies, which even the control of the sea could not get for England. England draws a great many of her supplies from abroad. She cannot, so long as the war goes on, pay for them in goods. She must part with gold or with securities, or contract loans which will annihilate the benefits of some foreign investments. She cannot commandeer these goods in foreign countries as she could do in her colonies and she has to pay exploitation prices for them. Moreover, the continuation of those supplies depends on the good will of foreign nations. Her present immunity from interruption of communications is due in part to the strength of her navy. It depends partly on her geographical position. And her freedom from serious attacks and the possibility of trying a policy of starvation against Germany is due to an alliance. In a purely Anglo-German conflict England could never have tried such a policy. And alliances between ambitious world-powers are no basis for permanent security. England, however, has no choice. She must rely on oversea supplies. She is an island accessible from all parts of the ocean; even a superior navy could scarcely blockade all her coasts. She cannot hope to maintain a growing population, which even today is the densest in Europe, on two small islands. She will have to rely on the continuation of outside supplies, but she will try to diminish the danger of depending on oversea supplies by shifting their base to her colonies. Why should she again become dependent on Russian grain supplies or on German sugar in the future?—or on the good will of neutrals in continuing supplies to her good-naturedly, whilst she hampers their trade?

To have achieved such a feat once without being punished for it is enough for a wise nation. As it is she feels the strain rather severely

of having to continue an export trade with neutrals, for fear of losing their markets, whilst she ought to use all her energy at home. Some of these dangers can be lessened by bringing about a form of Imperial Federation, as outlined by the late Mr. Chamberlain. In the British dominions a nationalization of British labor and capital may be achieved approaching the ideal of a self-sufficient state. Financial and political reasons which have worked against that scheme before will favor it now. Inter-imperial communications, it is true, are sea communications too, and exposed to hostile attacks. It may suit England when peace is established to safeguard them by adopting the principle of the free sea. But even if she does not do so she has learned from her own experiences that the legitimate connections between neutrals and belligerents may be cut without any risks of punishment. That being so, inter-imperial trade, the trade between different ports of the possessions of a belligerent, is not more subject to hostile interruption than international trade.

The most severe consequences of the war's influence on international relations have fallen on Germany. Three of her neighbors are closing her land frontiers; her unfavorable geographical position, with no really open outlet to the sea has put her oversea trade at England's mercy. Her neutral neighbors are too weak to be able to insist on neutral trading rights. Until lately she has been cut off from most of her foreign supplies. (She was of course less dependent on foreign supplies than England.) Her territory, and that of her Austrian ally, is almost four times the area of the United Kingdom, whilst their population is not quite three times as large. She has been able to go on, notwithstanding all pressure. But her present achievement does not give any guarantee that she will be able to stand a similar ordeal in later times, when her population may have doubled. Perhaps peace will establish the principle of the open sea, making the policy of starvation more illegal than it is today.

Will the guarantees obtainable do away with all danger? If this is not the case, Germany must achieve economic security on a wide continental area. A commercial federation between Germany, Austria, the Balkan States, and Turkey can lay the territorial foundation on which a policy of self-sufficiency on a broad continental base may be possible. This was an old idea, pronounced many years ago by Friedrich List, in the days when Austria and Turkey were near neighbors. But even such a broad territorial expansion, based not on domination but on cooperation, will not bring about complete self-sufficiency. Self-sufficiency is only possible if all goods essential to a nation's life can be

found within its confines, and that in sufficient quantities. No territorial expansion fulfills this condition. Even a commercial federation reaching from the North Sea to the Persian Gulf would not produce all commodities in the quantities wanted. But a new movement has been gathering speed lately: systematic substitution of national goods for imported commodities. It began more than a hundred years ago, when beet sugar took the place of cane sugar; it achieved a significant triumph when synthetic indigo took the place of the natural product. During the war great progress has been made. Nitrate made from the nitrogen of the air and later on from ammonia has taken the place of imported nitrate. A nitrate monopoly is proposed by the German government, to prevent the swamping of the industry after peace is made. Natural rubber is being supplanted by artificial rubber. The place of cotton in the manufacture of explosives is taken by materials derived from wood. This movement will go on after peace is made.

Moreover, the war has given the warring nations a statistical knowledge of their business life they never possessed before. It has developed socialization to an unexpected degree. Production and consumption are now brought to a common level not by marketing but by organization. Capital and labor will be directed towards those industries where they are wanted. Limitations of quantities will be used in combination with the old established methods of customs tariffs and railway rates. A differential taxation will see to it that the nation's necessities will not be sources of private surplus gains, as is outlined in the German bill for taxation of war profits. For those articles which are essential but which cannot yet be produced at home in the needed quantities, the government will create importation monopolies, as Switzerland has done in regard to grain. And government storehouses may again be the order of the day. Labor and capital will be nationalized to a much greater degree than ever before.

These movements cannot be restricted to one nation. If Germany is leading just now, it is because she was most severely hit by the interruption of international relations. But the other belligerents, and all European neutral nations, have been taking steps in the same direction. And the nations will not return to the old state of affairs. The ideal of national self-sufficiency was nowhere more widely discussed before the war than in France. Why should a nation whose population does not grow, and which has an enormous colonial empire within a day's journey, compete in the markets of the world? Why should she invest her savings in foreign countries, and risk income and capital during a time of war? Surely France has learned the lesson by now

that in international relations the creditor is at the mercy of the debtor, and not otherwise.

Russia, on the other hand, is in the position of the debtor. A great share of her exports was always "ear marked," so to speak, for the payment of interest. Her debt will grow immensely by war loans placed abroad, and by foreign imports for which she cannot pay with grain, owing to the closing of the Dardanelles. Moreover, as long as England holds Gibraltar and the Suez Canal, as long as the Baltic remains a closed sea which communicates through three narrow channels with the North Sea (closed easily in its turn by England's position and by England's navy) Russia's export will never be free, even if the Dardanelles were forced. She has felt the heavy burden an agricultural country has to carry when going to war without a sufficient industrial outfit for the production of modern war material. Russia has strong inducements for carrying out the economic ideal of her nationalists,—a self-sufficient Russian Empire. All this will, if I can read the signs of the times, not make for an increase of foreign business relations. The original basis of international exchange is the diversity of natural economic conditions existing in different countries. The growing size of the different business territories has greatly diminished the importance of this cause. Natural advantages of production are replaced by artificial advantages which are brought about partly by inventions and partly by organization. If security rather than wealth become the aim of organization, its scope will be almost unlimited.

I do not believe foreign trade will stop. The small countries like Denmark and Switzerland cannot hope to do without foreign trade. They must go on, on the same precarious basis on which they have suffered so much today, if they do not of their own free will enter the commercial federations of their neighbors. The young countries of the New World will have to go on producing raw material and they will have to find markets for it. The big exporting industries in Europe, which are accustomed to have a big surplus production, will not like to give up profitable markets. Big ports and large steamship companies will go on catering for trade. Outlying colonial possessions will not be given up. But the obstacles to foreign trade will increase, not diminish. Commercial competition may perhaps become more intensified in some selected neutral parts of the world. The economic dependence of the great nations upon each other will not be as close as it has been before.

G. D. Hancock: Professor Johnson has stated the necessary factors and prerequisites of a large foreign trade; he has described the

opportunity which exists for the expansion of the foreign trade of the United States; he has cautioned us against too great hopes for the realization of these opportunities; and he has, in the largest part of his paper, discussed what program the United States ought to adopt to aid in the promotion of larger foreign trade. He very wisely refrains from making any definite forecasts of the future course of our foreign trade after the European War.

The economist turned prophet is on unsafe ground in the present case, because so many of the causal factors are unknown and unknowable. Before we could predict the changes in the foreign trade of the United States resulting from the European War, I should say that among other things we should need to know the following: the duration of the war; the outcome of the war; whether the United States is to be drawn into the war; the exact effect of the war on the investments of foreign capital in the United States; the effect on interest rates in Europe and in the United States; the effect on the general price level in Europe and in the United States; the result of the war on the spirit of nationalism or internationalism, that is, of exclusive national policies; and also the eternal uncertainties of political action of the United States, in its shipping policy, its tariff policy, and its general attitude toward foreign trade promotion.

Since most of these things are beyond human knowledge at present, I wish to avoid even seeming to forecast any positive results. A few suggestions can be made, however.

In the first place, the fact needs some emphasis, well-known as it is, that our most important trade is not with South America but with Europe. Our trade with South America has grown very rapidly during the war, and it had grown rapidly for some years before the beginning of the war. But it is only a small part of our foreign trade, and as compared to our normal trade with Europe it is of much less value to us. In 1913, the last year unaffected by the war, our trade with South America formed only about eight per cent of our total foreign trade, and we exported over ten times as much to Europe as to South America. Our most important trade for all time past has been with Europe, and whatever affects that trade is of the utmost importance to us. The chief importance of South America, of course, is the fact that it is looked upon as a growing market for our new and growing surplus of manufactured products.

Up to the present time the results of the war that may affect our foreign trade in the future are: (1) the importation of large amounts of European capital, or the return of large amounts of American se-

curities formerly held abroad; (2) the development at feverish speed of a large number of highly specialized industries for supplying the belligerent countries with munitions of war; (3) the establishment and rapid expansion of certain other industries, such as chemicals and dyes, under the extreme protection afforded by the stoppage of European importations during the war; (4) the supplying to a considerable extent of markets temporarily abandoned by the belligerent nations; and (5) the beginning of a rapid growth in merchant marine under the United States flag.

Some of the results of these changes may probably be predicted. If the European holdings of American capital should all be cancelled by the constantly growing balance of exports to Europe two important results might follow: first, this will make it necessary for us to export less or to import more, in order to keep our foreign balance straight; and, secondly, it may possibly give to the United States a sufficient surplus of capital to extend our investments into foreign countries, and thus remove or reduce one of the greatest obstacles to the expansion of our foreign trade in the newer countries such as South America—the obstacle, I mean, due to the lack of capital investment in those countries.

The development of the "war order" industries is in many cases only temporary, but in other cases these plants (which will have been paid for by war orders) may be used or modified for continued domestic or export production. It remains to be seen whether the new industries developed in the United States by the war can stand European competition after the war; or whether they will go down under this competition as did the new manufactures and shipping of the United States at the close of the Napoleonic wars.

It does seem, however, as if some of the obstacles to the development of trade with our southern neighbors may be removed by the war. American capitalists may now look more and more to Latin America for investment and development of new enterprises; political relations are much closer among the American nations since the beginning of the war; American banks are being established in South America; the beginnings of an American merchant marine are probably in sight (if this is really a factor of any great importance); and Americans ought by this time to be convinced that their merchandising methods need some revision.

When we look at our trade with Europe, however, we see different probabilities. Europe will still need our raw materials and we shall need many of her manufactures. But if the United States should be-

come a debt-free nation instead of a debtor nation; if we build our own merchant marine; if we continue the diversification of our own industries, to include the production of these dyes and chemicals and other manufactures heretofore imported from Europe; how will Europe pay? That is, if we cease to import the two hundred to three hundred millions a year of the service of foreign capital, the twenty-five millions a year of foreign owned transportation service, and the many other millions of manufactures which, it is said, we are to produce for ourselves, then the balance of trade would tend to be permanently in such a condition as at present, which is impossible. If all these things happen, we shall certainly either export less or import more—somewhere.

The very increased efficiency of internal transportation recommended in the paper will tend to promote internal trade as well as external. And certainly the diversification of industries tends to make a nation less dependent upon foreign trade. The size of this country and the great diversification of its resources make foreign trade of much less relative importance than domestic trade.

Another factor that must be considered is the one which Professor Bonn has so ably discussed—the probable result of the war in developing a stronger spirit of nationalism in all the nations. The "parliament of man, the federation of the world," seems to some to be the probable result of the war. If this should be the result the obstacles to international trade would undoubtedly be removed, and we should see in the future the free-trade economist's ideal of international division of labor. I agree, however, with Professor Bonn, that the more probable result will be the strengthening of the spirit of nationalism. More exclusive national policies may be expected which, in the case of Germany and her allies and the other continental countries, will undoubtedly take the form of direct attempts to make the nations or the league of nations self-sufficient, by the use of tariffs and subsidies. In the case of Great Britain this nationalism will probably take the form of continued domination of the seas and the establishment of some form of imperial customs union. This will be a return to the policies of the Mercantilist period, and will mean the planning of domestic and international policies on the assumption that war is the normal condition. Much as we may regret it, this movement seems most probable.

In any case, European markets for the future seem very uncertain, both for the economic reasons I have suggested, and for the political reasons just discussed.

Carl E. Parry: We will all agree, I think, with the general drift of Professor Johnson's paper. The war has brought it home to us that we are face to face with a new situation which calls upon us to readjust our attitude of mind and to reshape some of our policies and institutions. But as yet we are not quite sure that we understand this new situation. Some of us, like Professor Bonn, think that the world has learned that too much international trade is a bad thing, because it produces too much interdependence. If this is so, we may look forward to a period of trade restriction, and govern ourselves accordingly. Others of us are impressed with the great and growing importance of the foreign market; we look forward to an expansion of international trade, and feel that we must prepare ourselves to take our share of it. It seems to me important to determine which of these two contrasted views is most likely to turn out to be right.

We have heard this morning a sincere plea for the ideal of national self-sufficiency. If it represents the present temper of Germany, as we have reason to believe that it does, we have one more example of the spirit of nationalism which seems to have been so much intensified during the present war. This spirit prevails, and has increasingly prevailed, on the whole, throughout the world for more than a generation, and it is likely, in my judgment, to lead to commercial results of great importance for our own foreign trade. It is likely to lead, in short, to another era of high protective tariffs.

After the Franco-Prussian War, and after our own Civil War, the world witnessed an era of higher tariffs,—in Germany, in France, in the United States, in Canada, and in Australia,—practically everywhere except in the mother country of the British Empire, and tariffs went up, on the whole, until the outbreak of the war. Russia was preparing to raise her tariff, largely on Germany's account, when the war broke out; she will probably do so after the war. The protectionist sentiment in France, already strong, seems to be growing stronger. Part of it demanding commercial discrimination against the Central Empires. Germany and Austria are almost certain to form a closer tariff union than they have had before. England has a war tariff which she is not likely to get rid of very easily; imperial sentiment is stronger throughout the British Empire than it has ever been before; the formation of an imperial customs union is not beyond the range of possibility. We cannot be oblivious of these prospective moves on the part of our best customers. I think we must expect a period of higher tariffs that will hamper the trade of the world, including our own foreign trade.

Most of us, I suppose, subscribe to the ideal of international specialization, of international division of labor, which it was the great service of the classical school of economists to construct and to make popular. Most of us hate to anticipate any narrowing of the field of international trade. Most of us look upon the erecting of higher tariffs throughout the world, with a view to national self-sufficiency, as the recrudescence of an old ideal. But for all that, a period of restriction seems to be before us.

This period, let us hope, will be only temporary. The effect of the war in stimulating world-wide interest in foreign trade will help perhaps to shorten the period of reaction. But we cannot now foresee how long it will last. Meanwhile our own hand in the great game of international commercial diplomacy will be increasingly harder to play. We shall need to know to what extent, if necessary, we can make ourselves industrially self-sufficient; we shall need to know at just what points tariff revision on our part can bring pressure to bear upon other nations whose tariffs we wish to influence; we must pursue a more definite and more continuous commercial policy. And we must, in particular, give international considerations more weight in the determination of our tariff questions. We must pay more attention to the effect of some proposed revision of our tariff upon Brazil, and Germany, and Canada than to its effect upon Wyoming, Massachusetts, or Louisiana. And if we are to have continuity of policy, dominated by international considerations, we need to have more thorough and scientific investigation into the pertinent facts. We need more research of the kind that the government has recently been making into the chemical industries. Perhaps we need some sort of tariff commission or international trade commission, not altogether because it has more power than private investigators to get at the facts, but also because it is in a better position to give them authoritative publicity. It often happens that commissions do not find out anything that scholars do not already know, but the findings of a commission command more public attention. The great point is that if we are to consider our own tariff questions in a more international spirit and with more attention to international considerations, there must be some means of educating public opinion, the opinion of the man in the street, to this international point of view. More and better investigation and more publicity seem to me indispensable to this end.

About a generation ago we began in this country to appreciate the fact that in the past we had been exporting goods that had practically marketed themselves, but that in the future we should need to export

goods for which markets had to be made and found. We began to see that we need to learn how to sell our goods abroad. And business men saw that they needed, among other things, to get together. It was this perception that led to the formation of such organizations as the National Association of Manufacturers, the Philadelphia Commercial Museum, and the American Manufacturers' Export Association, of which Professor Johnson spoke. It was this movement which bore fruit in the establishment of the Department of Commerce and the Bureau of Foreign and Domestic Commerce and in the improvement of the consular service. And one of the chief effects of the war has been to show us that this movement for getting together must be accelerated. Business men must learn to work together better, with less suspicion of one another. I do not know exactly how this is to be done. The multiplication of trade associations can do a good deal toward accomplishing it. But it is certainly an imperative need of the business world, and the prevailing war is doing a great deal to bring this idea home to all of us.

B. Olney Hough: It is a satisfaction, but by no means a surprise, to find Professor Johnson warning against an exaggeration of the effects of the European War on American commerce. Our foreign trade, at least our export trade, will continue to be after the war, as it was before, precisely what the merchants and manufacturers of the United States make it.

Of all the elements named as entering into this problem—efficiency of production, skillful methods of merchandising, adequate international banking facilities, economical means of transportation—that of merchandising methods stands out as the first indispensable necessity for the increase of our export trade.

What Professor Johnson calls "one of the recognized limitations upon the development of foreign markets, the ineffective merchandising methods followed by American exporters," is properly so described only in part. But, unfortunately, the criticism undoubtedly does apply in certain especially notable directions. Such names as the Standard Oil Company, the United States Steel Products Company, mentioned by Professor Johnson in his paper, naturally immediately suggest the promotion of business relations in other countries in ways that seem to commend themselves as peculiarly wise. They are, however, to be supplemented by a long list of other American manufacturers,—the makers of Singer sewing machines, of National cash registers, of several different kinds of typewriters, of Kodaks, some of the great

meat packers, two or three shoe manufacturers, and others. By no means all of them are to be qualified as "large concerns," nor do all of them "find it advisable to adopt methods employed by Europeans" in the sale of goods in foreign markets. The Standard Oil Company, for example, originated its marketing policies; it set an example even yet only partially and not so effectively imitated by foreign oil companies. The warehouses of the United States Steel Products Company in Chile have no exact counterpart on the side of European producers of iron and steel goods, although the Steel Products Company is something more than a producer. To a considerable extent it is an export merchant, buying an appreciable part of its supplies from works outside of its own organization.

Undoubtedly the most notable development of present foreign trade conditions has been the formation of financing companies—for there is already in the field at least one other than that mentioned by Professor Johnson. This other came into existence earlier in the season, quietly and with no flourish of trumpets, rather with an apparent desire to shun publicity, organized like the later one by an important contracting firm supposed to be closely allied to different great banking interests. Capitalized at only $1,000,000, the press almost overlooked it until one day the news leaked out that negotiations by it were on foot to take over and regenerate practically the whole railway system of another nation.

These companies should be forerunners of a dozen others. Both of the present, all of the future, can or should bring to pass actually great results to American commerce. Markets for foreign government bonds through our exchanges and investment-security bankers will certainly be a favorable influence. The awakening of the American public and above all American manufacturing concerns to the desirability of investments in other kinds of foreign bonds, in those of the classes commonly denominated "industrials" and "municipals," will be far more important as affecting our export trade. Clearly the banker and the supplier of goods must coöperate.

Professor Johnson's views as to an American merchant marine are sound, now as always. Yet it is not to be forgotten, so far as our export trade is concerned, that we as American shippers really have little to say as to routes which merchandise ordered from us shall take. It by no means necessarily follows that when American ships are available our foreign customers will instruct us to ship their goods on those flying American flags,—they may prefer other vessels. But there is a singular lack of comprehension as to what a merchant marine

is, frequently observable in this country, even in public discussions of this subject. Our talk is commonly of "lines from New York" here and there, of "lines from San Francisco" to other destinations, of "lines from New Orleans," and so on. Professor Johnson rightly observes that we require services "both of vessels operated under charter and of steamship lines." But does he not confuse chartered boats and liners, master of the subject as he is, and does he not convey a mistaken impression in speaking of "vessels operated under charter, i.e., 'tramp' steamers"? Probably every "line" of steamships in existence of no matter what nationality frequently employs "chartered boats" (boats not owned by it, only leased) when conditions or the exigencies of traffic require or make that course advisable. Some "lines," properly so-called because they maintain regular sailings between certain ports, are operated only by chartered boats. This is more common practice, possibly, in the shipping trade of the United States, yet it is not unknown in Europe.

The real distinction is not between "liner" and "chartered" ship but between passenger liner and cargo carrier. Do we require—would it pay ship owners to maintain—elaborately fitted passenger boat lines from New York to Cape Town or New York to Melbourne? It may reasonably be doubted. All great British lines operate some strictly cargo boats; some of them have few passenger ships, or if their ships have any passenger accommodations they are limited and the passenger trade is not sought, as, for example, the "Parrots" of a well known British line conspicuous with their red and green funnels in ports of the eastern Mediterranean and Black Sea before the war.

If the multiform and multi-colored wisdom of Congress fails in itself to devise relief from admittedly intolerable restrictions on American shipping, what hope remains that Congress will consent to resign its powers to a shipping board, especially if that board is to be entrusted, as Professor Johnson suggests, with the expenditure without congressional dictation of "a liberal appropriation of funds"? A shipping board seems eminently advisable none the less. But the most imperative necessity is to impress Congress with the will of the people that the board be wisely selected, free from the taint of politics or at least partisanship, and that the opinions and advice of the board, once so wisely selected, he heeded,—that it be not found necessary to consider "expediency" in putting its recommendations through the House and the Senate. This presupposes hard and active work on the part of the business men of the United States,—something more, a great deal more, than the mere passing of resolutions. Ship owners may be trusted to

show their patriotism, as well as their ability to operate ships, when placed in a position to do both without undue loss to themselves, and when in that position no Acts of Congress will be required to prevent their transferring vessels from the American to some other flag, as was actually proposed a week ago.

It is always difficult to withstand the temptation to scold our American manufacturers, even to swear at them. All of us have done our share and will probably continue the practice. Perhaps, little by little, this criticism and scolding may help in bettering some business practices. But one great outstanding fact stares us in the face: American exports of manufactured goods (exclusive of foodstuffs) grew from less than fifteen per cent of our total exports in 1880 to nearly forty-nine per cent in 1913. From 1900 to 1913 our exports of manufactured goods grew 126 per cent. Explain it as you will, say that this extraordinary growth, greater than Germany or any other manufacturing nation has shown, occurred in spite of ourselves, that we did not deserve it, yet there the figures stand.

In the exuberance of our American patriotism it may be that we are disposed to overestimate the share of the world's trade that should be ours. Just as we ourselves have imported, must and always will import, enormous quantities of sundry supplies from virtually every other country on the face of the globe, so it is and always will be with other countries. All do now, as they always must, import goods from virtually every source of supply. Our ambition should be to increase our own trade, to win away a small part of the imports into other markets now controlled by some competing nations. We cannot get all the trade of all countries, or indeed of any country. Such assertions as that made not long ago by a former minister to a South American republic that the United States ought to control seventy-five per cent of the import trade of that republic are nothing less than absurd. Let us set reasonable bounds to our ambition.

Stupid things as figures are, glance over the endless columns of the import and export statistics of any of the Latin American republics. You will find that from ten per cent (Costa Rica) or eleven per cent (Mexico) up to thirty-three per cent (Salvador) or forty-three per cent (Colombia) of the total imports of any of these republics consists of "textiles." Taking Latin America as a whole the average works out at between eighteen per cent and twenty per cent textiles of the total imports. In the case of British India, nearly fifty-five per cent is textiles. Even in Australia it is sixteen per cent. Eleven and two-thirds per cent of the imports of our own United States is made up of

textiles. In textiles are included tissues and other manufactures of cotton, silk, wool, hemp, jute, and other fibres. Clearly, if between eighteen and twenty per cent of the total imports of Latin America is made up of much the same goods as we ourselves import and from the same sources, on this account alone we of the United States cannot hope to secure seventy-five per cent of Latin American import trade. Certainly not unless or until our manufacturers in these lines experience a radical change of heart.

It is in the textile branches that American manufacturers have their greatest, their boundless, opportunities. It is in precisely those branches that the greatest inertia prevails, an inertia that is provokingly, distressingly un-American, not to say medieval. Excellent as are our domestic silk goods and our woolen goods, American mills have never made, are not today making, any effort discernible through a microscope to secure trade in the world's markets even for specialties in which we compete and even excel. Many people doubtless have been led to think that shipments of "cotton goods" have ranked high in the list of exports. Of the total of $51,000,000 worth of "cotton goods" for the fiscal year ending June 30, 1914, a normal year, forty-three per cent, nearly one half, was composed of rags, waste, and apparel such as corsets and knit goods. Eliminate these and compare the total of cotton piece-goods, the very richest of all export fields, only about $28,000,000, with our exports of $33,000,000 worth of automobiles or $36,000,000 worth of leather; compare American exports of $28,000,000 in cotton piece-goods with England's $600,000,000. Why, we ourselves actually import a third more manufactured cotton goods than we export—we, a cotton growing and manufacturing nation!

What is wrong here? Several things. First of all, antediluvian selling methods, mills, mill agents, brokers, jobbers,—complicated, costly, without enthusiasm, adaptability or originality, stuck fast in old ruts; second, manufacturing organization and trade methods which neither know or recognize change, much less are willing to contemplate the possibility of change,—methods which perhaps have grown up with or on account of home trade or have themselves developed home trade along its present lines, radically differing from, diametrically opposed to trade lines of other countries. The labor problem is by no means to be minimized. Our automatic machines turning out heavy sheetings and drills by the mile in standard unvarying counts, widths and pieces, at the minimum manufacturing expense, won for us pretty much all the trade we ever enjoyed in the Levant, the Red Sea district, India, and China. Excepting in these special products we have never

gained trade save only when the advent of American traders and the institution of free trade with the Philippines opened a market there, along what cotton men probably call "American lines," for printed cottons and a few, a very few, "fancies." Our goods pay twenty per cent lower duties on entering Cuba than do the goods of European manufacturers. We are only four days' freight time distant from Cuba's largest port. In spite of these emphatic advantages we have only so far succeeded in acquiring about one fifth of Cuba's imports of cotton goods.

Most Americans, one is disposed to boast, will stoutly declare when possible business of enormous volume is in sight, "We'll try." This seems not to be the motto of American cotton mills, big, rich concerns, contrasting most unfavorably with thousands of smaller manufacturers in other branches. No great expense is inevitable in changing some trade methods in order to give a foreign customer pink and blue only instead of trying to force him to buy also purple and green which his customers dislike and refuse. No serious drain on a manufacturer's resources, no heavy investment of capital is required, to give a foreign client the same design next year that he had and liked last year. The determination to do these things must be noticeable. It has not yet been discovered in the United States.

We have talked a great deal about our cotton piece-goods trade to China. England has been selling China almost exactly twice the value of such goods as the United States exports to the whole world. When we say that the world's textile trade as a whole is the particularly bright and shining mark for us, we may better realize the fact when we learn that England's export trade in cotton, wool, silk, and other textiles amounted in 1913 to about $950,000,000, almost one half the total value of the whole export trade of the United States of all kinds of products to all countries. Germany's exports of textiles have amounted to about $300,000,000 a year.

"Probable changes in the foreign trade of the United States resulting from the war"? How much depends on what American manufacturers make of their opportunities in textiles alone? We need not aim commercial arrows at the hearts of nations so sorely suffering, so savagely struggling today. Any inroads on their trade which we may make because of today's conditions will not be serious handicaps to them when commerce and industry again become approximately normal. They make, perhaps always will make, some merchandise better or cheaper than we can. A wonderful and extraordinary opportunity now presents itself to us to secure for some kinds which we may easily manufacture a comparatively easy introduction, at insignificant expense.

If we turn to the statistics of American export trade and roughly classify them into two divisions, one in which competition of other producing or manufacturing nations is a most important element affecting our development, the other that in which competition is not an appreciable or at least a vital element, we shall discover that only about one third of our total export trade should be classed as strictly competitive. Of course, all trade and all branches are competitive in some degree, but surely we may count in the non-competitive class our exports of raw cotton and mineral oil which together count for half of this whole class, the non-competitive. Add our exports of lumber, tobacco, copper, breadstuffs, meat, and dairy products and we have nearly made up the sum of two thirds of our total export trade from items in which competition in any emphatic degree is not unduly burdensome.

Turn the page to the remaining one third of our export trade, say $750,000,000 out of $2,300,000,000, and examine its details in order to hazard a guess as to how the end of the great European War will leave our position in the world's markets.

The one great outstanding item in this competitive class is that labeled "Iron and steel and manufactures of," amounting in 1914 to $251,000,000, or more than one third of all our exports in what we have called competitive merchandise. However, we may as well eliminate from this classification all of the primary products of iron and steel, for, when all is said and done, competition in them is generally and probably rightly regarded as not always a matter of ruling domestic prices nor as always based on cost of production as commonly estimated.

Orders for bars, sheets, steel rails, wire, wire nails may be, are, and undoubtedly will be secured by American manufacturers when they want them or need them, or as policies adopted as affecting both the present and the future may dictate. Ways of developing foreign markets for such primary products may vary according to the inclination of the producers. Certainly wise and farsighted policy will indicate the adoption of methods of marketing and shipping which will bring costs as low as possible, no matter what relation foreign bear to domestic sales prices. If the ownership or control of steamships seems required in order to secure transportation facilities when needed and at practicable rates, then we may expect to see that course adopted by great steel and iron companies as it has been by other manufactures and merchants in the fruit, oil, molasses, tobacco, lumber, sugar, and other trades. Theoretically, there seems small choice between the policy of opening one's own warehouses in foreign markets and the maintaining of consignment stocks in the hands of independent agents

under close supervision and control of American manufacturers. In one market we may expect to find one course adopted, in another market the other course, just as is today the case.

At present American iron and steel are practically unobtainable by foreign buyers for from three to six months to come. Buyers are beggars today, so great have been the demands on our mills, forced in our direction because of curtailed European supplies. The end of the great war will apparently bring about only this change in our export trade in this particular branch: possibly more of our great producing companies will have been encouraged by trade and profits to look with favor on some foreign markets for the distribution of tonnage. There is a chance, too, that more producers will utilize and cultivate connections established abroad, may even go so far as to create facilities for the placing of tonnage most economically. But in this particular trade a number of elements affect exports other than calculated costs of production or of marketing, both in the United States and among European manufacturers.

We must not overlook the fact that under the heading of "Iron and steel and manufactures of" there are included in our statistics many items by no means belonging among those "primary products" which we have just been considering. There is the whole great class of machinery ($14,000,000 in 1914) and many smaller items ranging from safes and lawn mowers up through bath tubs, razors, and scales to locks, hinges, axes, hammers, and saws ($28,000,000). Then we may segregate as American specialities, not properly competitive articles, at least $26,000,000 in sewing and typewriting machines and cash registers. It will not be denied that in almost all of the more highly elaborated manufactures of iron and steel it is American characteristics rather than price considerations which have won our existing trade.

There may be serious and reasonable doubt as to the desirability of attempting to manufacture in the United States many thousands of articles to compete on strictly price basis with products of certain European makers, while the very possibility of much manufacture of this description in this country is more than doubtful. The European War has brought down upon us a deluge of inquiries for many such goods. A goodly proportion of these apparent "opportunities" may be relegated to the waste paper basket with scant if any serious consideration. We may, without jealousy or envy, grant to other nations a continued monopoly of some of their products, and, it is safe to add, without loss to ourselves.

The exceptions are those articles which we can or do make with profit to ourselves, to serve the same purposes, whether or not they are of similar quality, price, or even design. Hard, patient, enthusiastic educational work may be required to introduce some of these goods. That it is possible to do so the whole technical history of the swift advance of the United States as an exporter of manufactured goods goes to prove.

It is certain that a good deal too much stress has been laid on the necessity for American manufacturers to cater to the local requirements of foreign markets. So far as it is practical for us to do so, given the existing organization of our factories, or through slight and not too expensive changes in methods and processes, the adaptation to local preferences or prejudices which has so often been urged may be desirable in many cases,—for example and notably in the development of business in textiles, chiefly cotton piece-goods. However, in principle, we, like every country, may most profitably devote our energies to selling in foreign markets those goods which we manufacture to the best advantage or those specialities in which we excel. Profit and permanency in export markets will be most sure if based on that policy.

It seems probable that entirely too much emphasis has also been placed on the influence upon commerce of ocean freight rates. Without denying the fact that rates are sometimes vital and frequently effective influences on trade, yet the commodities included in such classes are limited in number (contrast relation of freight charges to cost in cement and shoes) and the effect of freight rates may more often than not be offset by other influences. As applying to the great bulk of manufactured goods, that class of exports in which the United States are chiefly interested, ocean freight rates, higher or lower by small margins in a competitive way, seldom if ever finally determine sources from which supplies will be purchased.

Coördination of rail and water routes, the "planning, equipment and administration" of seaboard terminals, are again developments largely dependent upon the live, active, intelligent interests and real personal *work* of American business men. They will have to wake up to the fact that something more, a great deal more, is needed than applauding approval of occasional speeches at lunches and banquets. Active, personal *work* is essential, and that not merely on the seaboard. It is far more necessary and will be the more effective in the interior of the country, very especially in the more distant interior.

These comments end, therefore, very much as they began. Effective merchandising methods are the prime essential in the development of

our export trade. That trade after the war will be precisely what American merchants and manufacturers make it.

RALPH H. HESS: I am in substantial agreement with Professor Johnson upon the general principles of foreign trade policy, but I wish to emphasize the importance of certain nationalistic aspects of impending industrial and trade conditions.

It must be granted, I think, that a rapid extension of foreign trade relations and facilities and a successful reconstruction of the foreign trade policy of the United States along permanently aggressive lines has never been so favorably possible as now. It is even difficult to conceive of a future combination of circumstances so fortunate for the acquisition of international commercial prestige by the United States as that of the present.

We retain the superior richness and diversity of natural resources which have been the source of the spontaneous and irrepressible foreign trade which we have enjoyed to our great profit. We have a great foreign trade despite the lack of a scientifically coördinated system of marketing, transportation, and credit, and in spite of a persistent obstructionist foreign policy. In our economic evolution we seem definitely to have surmounted the period of dependent industrial development and to have attained an efficient maturity of industrial organization and financial independence. We now possess superior advantages over trade rivals in at least two fundamental factors of industry and trade, i.e., *natural resources* and *capital*. In matters of *business acumen* and *industrial organization* we have, in recent years, acknowledged none superior except the mechanism of international intercourse gradually built up by European nations while we were occupied with the development of a complex and lucrative domestic business. This mechanism has been rendered impotent by the advent of war in Europe, and the industrial powers of Europe which fed the machinery of commerce and the agencies of control which resided in London and Berlin are temporarily paralyzed and permanently impaired. The question at issue is not the control of European commerce, but the feasibility of an American substitute for the European trade and developmental machinery formerly in the service of the western hemisphere. It must be confessed that the project smacks strongly of commercial conquest. While it proposes self-help in marketing our own products, it implies the acquisition and holding of South American trade perforce relinquished by European carriers, merchants, and bankers. It obliges occupation and capitalistic development of industrial resources, particularly in South America, preëmpted by foreign promoters.

Despite the fact that commercial Europe has temporarily abandoned to us attractive trading privileges and industrial opportunities and has handed to us a considerable part of her permanent trade munitions in exchange for volatile war munitions, to retain and develop these opportunities will involve long continued commercial and industrial competition and probably a considerable pecuniary sacrifice for an indefinite time.

Among the factors which I have indicated as favorable to an aggressive American industrial and trading policy, *cheap labor* does not appear. Although opinions differ as to the wage value of European labor after the war, there is no hope that an equivalent of the customary American wage will be approached. Low wage bills will go far toward compensating Europe in industrial and commercial competition against our superiority in capital and natural resources.

In the last analysis, we face the very speculative problem of relative costs and benefits resulting from industrial expansion at home for the supplying of foreign markets, industrial promotion abroad, extension of funding institutions to foreign investment and discount markets, and the acquisition and operation of a merchant marine commensurate with the needs of our ocean trade. I fear that I am not competent to prepare a prospectus of foreign trading possibilities which would enlist the venture of a sufficient private capital and initiative to carry forward such a project. But I think the probable benefits which would flow from such a venture are not confined to those of pecuniary appeal to private capital and individual initiative and, consequently, are not clearly and widely understood by a commercialized public mind. The benefits of foreign intercourse may accrue to individuals directly, or they may accrue to the nation as a whole and to individuals only indirectly and in intangible form. The inference is that the project may be justified on the basis of national economy regardless of direct pecuniary benefits. Political economy and political science occupy common ground in the sphere of international relations. Good international politics is usually good national economy. But, since prudent and farsighted national economy may disregard private and transient interests in the formulation of measures to promote the security and progress of the national society, good foreign policy may not be in harmony with private business interests.

Now, commercial nations have always become powerful nations, not by accident, but because commercial resources and merchandising agencies are, in a secondary way, resources and agencies of military power and diplomatic influence. Merchant vessels, international in-

vestments, and commercial interdependence among nations are mighty agencies making for both prosperous peace and successful war.

Provincial nations are weak nations. The greater are their resources and the sturdier their populations, the more tempting they have been to the commercial and military aggressor. Economically speaking, the United States is provincial.

Incidentally, we at present observe the rapid dissolution of about the only source of European good will which we have ever possessed. For a long time immense foreign investments in the industries of this country have constituted a possible basis of international alliance. But it is calculated that over half of the American securities previously owned abroad have been liquidated in our markets within the last eighteen months, and the end of the war will probably find us without financial interests, friends, or favor among powerful nations, and entirely dependent upon our own naval and diplomatic power to safeguard our progress and to protect our nationality from the war-hungered peoples of Europe and our ambitious and prolific rivals on the Pacific.

International commercial and industrial relations may well be justified in terms of national power and security. An aggressive foreign policy is an essential of defensive nationalism for the United States. Whether it pays in dollars from the outset is a secondary question. If a merchant marine, foreign credit establishments, and effective foreign trading agencies do not promise a net profit from the beginning, an adequacy of private capital cannot be expected voluntarily to venture and persist. Government aid, in the beginning at least, is unavoidable. Such aid will, of course, involve a social cost,— a tax upon the present in behalf of security for the future.

To me, the choice between government aid by subvention and by government ownership of agencies of doubtful pecuniary profitableness is not clear. It appears quite possible that equivalent results might be attained by a rational administration of either method. In the matter of a merchant fleet time is a significant consideration, and government purchase or construction affords the probable advantage of speedy accomplishment. Equitable subsidies are not easily calculated in the absence of experience, and if the burden of the unknown risk is to be publicly assumed, as it should be, initial government ownership, subject to conversion after the experimental period is past, seems reasonable and expedient.

R. R. Bowker: When List developed his system of "National Economies" and raised the cry "from Berlin to Bagdad," to which Herr

Ballin has referred in his recent article in the *Vossische Zeitung,* and when Cobden preached economic "peace on earth, good will to men," they joined a great issue which the present war is fighting out. There are those of us who still hope that the final result may be the full recognition of international interdependence, but it is not improbable that the first effect may be emphasis on national self-sufficiency. In this case and perhaps in any event—for the purchasing power of all the warring nations will be lowered—the expectations of continuing enlargement of our export trade are likely to be disappointed. Respecting South American trade I happen to have some knowledge, for I well remember our increasing trade with those countries when I was a boy, as one uncle was a New York merchant with a branch house in Buenos Aires, and another was the commander of one of the river steamers, even then magnificent, in what was called the River Plate trade, and I have in later years traveled about South America. That trade was pretty nearly destroyed, partly by reason of the protective system and the war tariff increasing the cost of our products and repelling imports. But high costs, whether due to our tariffs or other causes or transportation limitations, however difficult at the moment, are not the sole or perhaps the chief obstacles in our South American trade. While in Rio a few years ago, I was told that only one merchant ship flying the American flag had been seen in that harbor within the year; nevertheless there were and are several good lines between the two Americas, and government-owned ships would not materially affect cargoes. One of the difficulties of our commerce is over-restrictive legislation, such as the Sherman Anti-Trust law in its extreme applications involves. So high an authority as Professor Chandler points out that German manufacturers of drugs and dyes are able to arrange amongst themselves that where there is insufficient demand for any one chemical to justify competition, one manufacturer shall produce this particular article while others refrain from attempting it,—which our anti-trust legislation makes impossible here. But in one element of South American trade, the cost of interest, we shall be at less disadvantage after the war. At one street corner of Buenos Aires a greater supply of capital is represented than at almost any other place in the world, except the financial centers of New York and London, and English and German merchants have found it possible to do business in South America at three per cent interest, giving a year or more credit. This we had been unable to meet, but with the rise of interest in Europe we shall be more nearly on a par, and this should help to increase trade between this country and all Latin-American countries.